0337: Introduction of an Inter-Day Linepack Product

Workgroup Report
Introduction of an Inter-Day Linepack Product
Modification Reference Number 0337

Version 1.0

This Workgroup Report is presented for the UNC Modification Panel's consideration. The Transmission Workgroup considers that the modification is sufficiently developed and should now proceed to the Consultation Phase. The Workgroup also recommends that the Panel requests the preparation of legal text for this modification. The Workgroup also recommended that the Panel should request a view from Ofgem on the appropriateness of the proposed recovery of User Pays costs from Shippers and Transporters

1 The Modification

Background

Licence Obligation

In February 2010 Ofgem published its Final Proposals Consultation on the National Grid Gas System Operator (SO) Incentives. The Authority effected these Final Proposals on the 1st April 2010 through revisions to National Grid PLC's Gas Transporter Licence Special Licence Condition 27 ('C27'): Balancing Arrangements, which in part places an obligation on National Grid NTS to use reasonable endeavours to:

- Develop, in consultation with the industry, a Linepack product by 1st April 2011 and report to the Authority on the conclusions of such development and consultation by 1st may 2011; and
- If directed to do so by the Authority, implement such product by 1st October 2011.

C27 also provides obligations to update the default System Marginal Buy and Sell Prices (default SMPs), as stated in Section F of the UNC, by 1st April 2011. For the avoidance of doubt, this Proposal is solely proposing to introduce a Linepack Product to satisfy paragraphs 1 and 2 of C27. Modification Proposal 0333 – "Update of the default System Marginal Buy Price and System Marginal Sell Price" is seeking to update the fixed System Marginal Price differentials and satisfy paragraph 3 of C27.

Review Group 0291 (RG0291) – 'NTS Licence Special Condition C27 – Balancing Arrangements' was initiated in order that National Grid NTS and the industry may develop and assess the feasibility of a recommended approach to both the introduction of a Linepack Product and the default SMP revisions.

Over the course of the RG0291 meetings several proposed Linepack Product options were put forward by National Grid NTS for consideration, however National Grid considers that the general consensus of the Group was that only one of the options, the Inter-day Linepack Product Bulletin Board, merited further development.

The recommendation of the RG291 report stated that, "*The Group did not conclude that this review had identified deficiencies in the UNC which meant that a recommendation could be made in support of a Modification. However, it was*

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recognised that potential Modifications could be assessed and developed on their own merits if any UNC party were to raise a Modification."

National Grid NTS was mindful that further development of the Linepack Product must be undertaken in conjunction with the industry if a robust report is to be provided to the Authority for consideration. We believe that the development required does not only relate to the appropriate drafting of proposed business rules, but is also required to:

- address issues associated with the cost versus the benefits of providing the new service.
- address the key measures identified by the review group; and
- respond to other issues outlined below.

Further Analysis

RG0291 agreed that Modification Proposal 0337 required further development and analysis. The Review Group suggested that the analysis of options should address the following areas;

- "Commercial mechanisms
  The Group believed the mechanisms for releasing the proposed product should be as simple as possible, ensuring they were commensurate with the product on offer.
- Interaction with SO Incentives
  While outside the scope of the UNC, it was accepted that it would be logical for the present Linepack incentive to be removed were the proposed product to be introduced. While some attendees did not consider it appropriate for National Grid NTS to be rewarded for making Linepack available, others felt this would be necessary to help ensure that appropriate behaviours and innovation were encouraged.
- DN interaction
  Since the scope of the suggested product was NTS only, no direct DN interaction was identified. It was noted that the DNs would not be a user of the product.
- Charging implications
  National Grid NTS indicated that supporting charging arrangements would be included as part of the intended Modification.
- IS system impacts
  National Grid NTS indicated that systems impacts could not be reliably assessed until the Business Rules were firmer.
- Costs and Benefits
  Neither costs nor benefits were quantified by the Group. National Grid NTS indicated that they would expect this to be considered as part of the development process for the Modification they intended

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to raise.

- ROM/DCA of preferred option
  National Grid NTS indicated that a ROM would be provided once the Business Rules were firmer."

Inter-day Linepack Methodology Statement

The RG0291 report states that, "*The Group indicated that they were not convinced there would be sufficient benefits to justify the costs of implementing this [the Inter-day Linepack Bulletin Board] approach, especially if the volume available was limited and only made available at National Grid NTS's discretion."*

National Grid has sought to address some of the concerns, documented above, through the publication of an Inter-day Linepack Methodology Statement and a presentation of our initial analysis at the Transmission Workgroup that outlines the potential volumes and likelihood of product release. The methodology statement seeks to provide the industry with a greater insight into the processes National Grid proposes to undertake as part of its determination of the Inter-day Linepack quantities it can offer each day. National Grid considers that the provision of such information may assist Users and other interested parties to evaluate whether there is sufficient benefit in the introduction of the Linepack Product to justify the implementation and on-going operational costs associated with the provision of this new User Pays Service.

We propose that the Methodology Statement is referenced within the UNC, and that it may be updated by National Grid, from time to time, following consultation with the Users.

Interactions with the Residual Balancing Role

We are mindful that the prevailing SO Incentive structure, and any future revisions, may have an impact on the interactions between the Residual Balancing role and the role of the Inter-day Linepack Manager. We believe that through the development of this Proposal some of the issues associated with these interactions may be clarified and in some part appropriately addressed. For the avoidance of doubt the role of the Inter-day Linepack Manager should not be considered as any type of replacement for the Residual Balancing role; these roles would continue as two entirely discreet entities.

FSA considerations

RG0291 noted that the activities proposed to be undertaken by National Grid NTS, as the Inter-day Linepack Manager, may be required to be FSA compliant. National Grid sought legal advice, which determined that FSA compliance would not be required as National Grid's existing derogation is suitable to cover the activities of both National Grid, in its role as the Inter-day Linepack Manager, as well as eligible

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Users of the Inter-day Linepack Service.

Transparency of Inter-day Linepack values

Under prevailing arrangements the value of Linepack and its utilisation to accommodate Users' daily imbalance positions is believed, by some industry participants, to be opaque. It has been argued that Linepack utilisation for this purpose creates the potential for a misallocation of costs between Gas Days and therefore the potential for a cross subsidy from one User group to another. Whilst National Grid considers that the Linepack Mechanism SO Incentive goes some way to mitigating the risk of transferring the imbalance costs from one day to the next, there is still the possibility for such costs to be transferred to a subsequent day and thus incurred by different Users. This Proposal seeks to improve this area of the regime by introducing a mechanism to identify and value the use of a product that specifically allows an energy imbalance to be transferred from one day to the next.

Nature of the Proposal

This Proposal, if implemented, will make available an Inter-day Linepack Product. This new service will facilitate the carry-over of a quantity of a User's daily imbalance to the following Gas Day. This will be achieved by the User placing a bid onto an Inter-day Linepack Bulletin Board. The Bulletin Board will be operated and managed by National Grid NTS, who will undertake a new role as the proposed 'Inter-day Linepack Manager'. The product will be released as a discretionary quantity on a daily basis.

The Inter-day Linepack Product may be made available as a 'Park' service; where Users may wish to carry over a quantity of an over-delivered (also known as a long) imbalance, or a 'Loan' service; where a User may wish to borrow a quantity of imbalance to cover an under-delivered (or short) imbalance. The Inter-day Linepack Manager may release one or both 'Park' and 'Loan' services on a Gas Day.

It is proposed that accepted Inter-day Linepack bids will be transacted through the registration of a matched pair of NBP Trade Nominations on the relevant Gas Day; and a further matched (but opposite) pair of NBP Trade Nominations for the following Gas Day. The latter pair of NBP trade nomination will reverse-out the inter-day Linepack quantity for the following Gas Day, thereby achieving a "carry-over" of the imbalance quantity between the two relevant Gas Days but ultimately a net energy imbalance of zero across both days. Both pairs of NBP trade nominations (for the Gas Day and the following Gas Day) will be registered on the Day the bid is accepted.

This service is seeking to introduce greater transparency associated with the value of providing the opportunity to "carry over" an imbalance quantity from one Gas Day to the next, where Linepack has the capability to accommodate such transactions. For the avoidance of doubt this service is not seeking to trade gas between the User and the Inter-day Linepack Manager, but merely provide a mechanism for Users to transfer an energy imbalance from one day to the next.

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It is proposed that, all primary receipts from the sale of the IDLP service will be returned to Shipper Users through Balancing Neutrality as stated in UNC section F4 – Balancing Neutrality Charges.

The Business Rules

To help clarify how the proposed service will operated in practice National Grid NTS has drafted the following set of Business rules to support this Proposal.

Inter-Day Linepack Product

Proposed Business Rules V0.2

(in the context of these Business Rules 'User' refers to Shipper User and not DN User)

1. Inter-day Linepack Product Overview

1.1. Introduction

1.1.1. The **Inter-Day Linepack Product (IDLP)** furnishes Users with the ability to undertake an inter-day transfer of a specified energy quantity.

1.1.2. There are two types of IDLP, which can be represented as a 'Park' and a 'Loan' product.

(a) 'Park' product – represents an inter-day transfer, from one Gas Flow Day to the next, of a positive quantity of energy.

(b) 'Loan' product – represents an inter-day transfer, from one Gas Flow Day to the next, of a negative quantity of energy.

1.1.3. For both of the above products an equal and opposite energy transfer will occur on the subsequent Gas Day so that the net energy transferred across both days is equal to zero.

1.2. The IDLP will be released within-day by National Grid NTS through the market mechanism detailed below.

1.3. In the event of a Network Gas Supply Emergency (Gas Deficit Emergency (GDE)) the provisions of these business rules for the IDLP service will not apply.

2. The Inter-day Linepack Bulletin Board

2.1. Introduction

2.1.1. The IDLP will be made available (within Gemini) on the **Inter-day Linepack Bulletin Board**.

2.1.2. The Inter-day Linepack Bulletin Board will be operated by the **Inter-day Linepack Manager** (or the Inter-day Linepack Manager's agent)**.**

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2.1.3. Separately for each of the Park and Loan products, the Inter-day Linepack Bulletin Board will show bid quantities, bid prices, quantities made available, and release times.

2.1.4. The identity of a User bidding on the Inter-day Linepack Bulletin Board will not be disclosed to other Users.

2.2. The Inter-Day Linepack Manager

2.2.1. National Grid NTS will be the Inter-Day Linepack Manager (IDLP Manager) for the purposes of;

(a) determining the amount of IDLP available for release (based on the published IDLP methodology); and

(b) operating the Inter-day Linepack Service (accepting bids on the Inter-day Linepack Bulletin Board), including, where permitted by the IDLP Manager, netting off bids received.

2.2.2. The IDLP Manager will have an UK Link account, but will not be subject to cashout charges and balancing neutrality, and any imbalances and subsequent charges it creates will be suppressed.

2.2.3. The IDLP Manager will be the counterparty to all accepted IDLP transactions on the Inter-day Linepack Bulletin Board.

2.3. Inter-Day Linepack Methodology Statement

2.3.1 The methodology associated with the services provided by the IDLP Manager, in particular the determination of Inter-Day Linepack Product quantities to be made available at each release, are contained in the 'Inter-day Linepack Methodology Statement', published and revised from time to time by National Grid NTS (following consultation with Users) unless any proposed methodology change is vetoed by Ofgem within 28 days of receipt of any such proposal, in which case the existing methodology will continue unchanged, and such document does not form part of the UNC."

2.4. Access to the Inter-day Linepack Service

2.4.1. A User may place up to 10 bids on the Inter-day Linepack Bulletin Board for each release subject to a minimum bid size of 100,000kWh.

2.5. Product Release

IDLP shall be released within-day for the Gas Day.

2.5.1. When the IDLP Manager has accepted bids, the associated NBP trades shall be completed before the end of the Gas Day relevant to the trade.

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2.6. Posting IDLP Bids

2.6.1. A User may post (and withdraw) bids on to the Inter-day Linepack Bulletin Board up to and including 7 Gas Days prior to the relevant release.

2.6.2. Bids are subject to a zero reserve price i.e. negatively priced bids will be rejected.

2.6.3. All relevant posted bids which are posted prior to the time of the first IDLP release for the Gas Day will be included in the first IDLP release allocation process.

2.6.4. The remaining quantity associated with any bids which are not wholly accepted in an IDLP release allocation process will be carried forward to the next IDLP release allocation process within that Gas Day, subject to paragraph 2.6.6 if past the last release and not having been withdrawn and remaining greater than the minimum size.

2.6.5. Bids for further releases within the Gas Day may be posted after a Bid Evaluation Period as defined in paragraph 2.9.

2.6.6. A bid can either be accepted by the IDLP Manager, or at the end of the relevant Gas Day the bid will expire and be dropped from the bid list.

2.6.7. Once a bid is posted no changes can be made to the bid (but the bid may be withdrawn).

2.7. Submitting Bids information

2.7.1. Where the User places a bid onto the Bulletin Board; the User shall;

(a) Indicate whether a 'Park' or 'Loan' product is required,
(b) the required IDLP release allocation day
(c) Specify price (pence per kWh) to 4 decimal places.
(d) Specify Quantity (kWh)
(e) Indicate whether the bid may be partially accepted subject to a minimum acceptable quantity of 100,000 kWh
(f) User ID, which will be visible only to the IDLP Manager and the User.

2.8. For the avoidance of doubt the identity of the bidding Users disclosed to the IDLP Manager pursuant to paragraph 2.6 and 2.7 will not be disclosed to other Users.

2.9. Timing of Release

2.9.1. At least ½ hour prior to each IDLP release the IDLP Manager will

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notify Users of the volumes available for the 'Park' product and for the 'Loan' product, in the relevant release, calculated in accordance with the IDLP Methodology Statement.

2.9.2. In accordance with the IDLP Methodology Statement; in the event that, during the period between IDLP quantity notification and IDLP release, there is an unanticipated or unforeseen material change (as defined in the IDLP Methodology Statement) in available Linepack that may have resulted from either or a combination of the following:

- System Incident (i.e plant / pipeline failure)
- Off system i.e. changes in Storage Flow Notification (SFN), Offtake Profile Notification (OPN), Delivery Flow Notification (DFN);

the IDLP Manager may revise the volumes available for release.

2.9.3. In-accordance with the IDLP Methodology Statement where the IDLP Manager is aware of a potential locational constraint, on the gas system, the IDLP Manager may not carry-out the netting off process for the relevant IDLP Release.

(NGG should not knowingly impact other incentive arrangements through its actions undertaken as the IDLP Manager. In certain instances NGG believe that netting off 'park' and 'loan' bids may exasperate the build up to a locational constraint.)

2.9.4. Where para 2.9.2 and/or 2.9.3 applies NGG will notify Users of the reason for the determination, associated with being unable to continue to accept the published volume or carry out the net off process.

2.9.5. There will be four releases of the IDLP during the Gas Day at the defined times in the table below

Release 1	Release 2	Release 3	Release 4
13:30	16:30	19:30	23:00

2.10. Bid Evaluation Period

2.10.1 The Bid Evaluation Period is a period in which the IDLP Manager evaluates relevant Inter-day Linepack Bids in-accordance with these Business Rules in order to accept or reject against the release quantity.

2.10.2 The Bid Evaluation Period will commence at the time that an Inter-day Linepack release is initiated.

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2.10.3 The IDLP Manager will ensure that the Bid Evaluation Period is not longer than is reasonably necessary to enable the IDLP Manager to carryout the actions described in paragraph 3.

2.10.4 During a Bid Evaluation Period Users may not post or withdraw 'Available' Inter-day Linepack bids for the relevant release.

2.10.5 For the purposes of these Business Rules an Inter-day Linepack Bid is 'Available' where the Inter-day Linepack Bid is made before the start of the Bid Evaluation Period (Release).

3. IDLP Bid Acceptance process

3.1. During the Bid Evaluation Period the IDLP Manager will undertake the bid acceptance process.

3.2. The outcome of the bid acceptance process will be made available to the bidding Users within 1 hour following the relevant release time stated in paragraph 2.9.5.

3.3. Acceptance Criteria

3.3.1. Bids, for each product type ('Park' and 'Loan'), will be stacked separately in descending price order.

3.3.2. Subject to paragraph 3.3.1 where there are two or more equally priced bids, these bids will be additionally stacked in time-stamp order, with earliest time-stamp first.

3.4 Netting Off Bids Process

3.4.1 In relation to each IDLP Release:

The "Sets" of IDLP Bids are:
a) the set of all eligible IDLP Bids for IDLP Park product;
b) the set of all eligible IDLP Bids for IDLP Loan product

3.4.2 In relation to a Set, the "Aggregate Bid Quantity" is the aggregate of the IDLP Bid Quantities for all eligible IDLP Bids in the Set;

3.4.3 In relation to an IDLP Bid, the "direction" of the IDLP Bid means whether the bid is for the IDLP Park product or an IDLP Loan product.

3.4.4 Where, for an IDLP Release, there are eligible IDLP Bids in both directions:

a) the "Smaller" Set is the Set for which the Aggregate Bid Quantity

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is smaller; and

b) the "Larger" Set is the other Set;

and where there is only one Set it shall be treated as the Larger Set.

3.4.5 The **"Available IDLP Quantity"** in relation to an IDLP Release and a direction means, subject to paragraph 3.4.6, the aggregate quantity of Inter-day Linepack which the IDLP Manager determines it can make available for the purposes of accepting IDLP Bids in that direction.

3.4.6 Where, in relation to an IDLP Release, there are eligible IDLP Bids in both directions:

a) the Available IDLP Quantity in the direction of the Smaller Set shall be the amount equal to the Aggregate Bid Quantity for the Smaller Set; and

b) the Available IDLP Quantity in the direction of the Larger Set shall automatically be increased (from the amount determined in accordance with the IDLP Methodology Statement) by the amount of the Aggregate Bid Quantity of the Smaller Set.

3.5 IDLP Release Bid Acceptance Process

3.5.1 IDLP Manager will accept bids in accordance with this paragraph 3.5.

3.5.2 Bid acceptance will proceed until all Inter-Day Linepack release quantity has been allocated.

3.5.3 In relation to each IDLP Release and each Set of IDLP Bids, bids will be accepted as follows:

a) the Set of IDLP Bids shall be ranked in order of bid price (the highest priced ranking first);

b) where two or more bids specify the same bid price, the first submitted bid shall be ranked higher;

c) the Available IDLP Quantity shall be allocated to the IDLP Bids in descending order, allocating the Available IDLP Quantity to the highest ranked IDLP Bid first until such time as the quantity allocated in aggregate is equal to the Available IDLP Quantity or there are no further IDLP Bids to satisfy;

d) subject to paragraphs (e) and (f), where the IDLP Bid Quantity

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exceeds the amount ("remaining unallocated amount") of the Available IDLP Quantity which remains unallocated after allocation to the higher ranked bids, the next ranked bid will be partially allocated equal to the remaining unallocated amount;

*e) where the partial allocation amount is to be allocated relate to a bid where the User has **not** indicated that the bid may be partially accepted, such a bid will be disregarded and the allocation will made in respect of the next ranked bid; and*

f) where the amount to be allocated in respect of a bid would be less than the minimum bid size (100,000 kWh), no allocation shall be made to the bid (and no further allocation shall be made).

4. Post bid acceptance process

Where the IDLP bid is accepted the associated transactions will be effected as NBP trades.

4.1. Automated Nominations

4.1.1. All IDLP trade nominations will be automatically generated by the UK link system.

5. Information Provision

5.1. Within 1hour of each IDLP release, the IDLP Manager will notify Gemini Users for each release:

5.1.1 In relation to the IDLP Park product:
amount previously published as being available, aggregate amount bid for, aggregate amount accepted, price range of accepted bids and volume weighted average prices of accepted bids.

5.1.2. In relation to the IDLP Loan product:
amount previously published as being available, aggregate amount bid for, aggregate amount accepted, price range of bids accepted, volume weighted average price of accepted bids.

5.2. The identity of the bidding Users will not be disclosed pursuant to paragraph 5.

6. Invoicing and Charging

6.1.1. The value (financial) of the accepted bid will be calculated as the accepted bid quantity multiplied by the bid Price (i.e. pay as bid).

6.1.2. The IDLP bid payments will be made through an Energy Balancing

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invoice item in-accordance with Section S of the UNC.

6.1.3. Receipts from the IDLP bid payments will be included in the Basic Net Neutrality Amount for the each relevant Gas Day when the product was allocated.

7. The making available of a specified Inter-Day Linepack quantity should not in itself and at the time, give rise to an Operational Balancing Requirement (but it is recognised that such quantities may contribute to any such requirements at any later time.)

2 User Pays

a) Classification of the modification as User Pays or not and justification for classification

This Modification Proposal will require changes to xoserve's systems and is therefore a User Pays Modification Proposal.

This Proposal will, if implemented, create a new functionality within the UK Link (Gemini) system to allow users to transfer imbalance energy from one day to the next.

Additionally the Proposal seeks to introduce greater transparency in the value of Linepack utilisation, it seeks to reduce the potential for a cross subsidy between EoD Linepack utilisation and balancing costs by enabling Users to undertake their primary balancing role through the utilisation of Linepack.

We consider that the introduction of this additional Shipper balancing tool and the potential reduction in cross-subsidy of costs associated with Linepack utilisation is to the benefit of both the Users who utilise the service and those who receive the additional Balancing Neutrality revenues that may result from the redistribution of the revenues from the sale of Inter-Day Linepack Product.

b) Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification

As previously stated this Proposal seeks to introduce and charges for a new Inter-Day Linepack service which enables Users to utilise Linepack as an additional balancing tool. The introduction of such a tool will solely benefit Shipper Users and we therefore consider that this Proposal should be funded 100% by Shipper Users.

All Shippers considered that implementation would potentially facilitate relevant objectives regarding efficient system operation and/or licence compliance, and hence the costs should not all be borne by Shippers.

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c) Proposed charge(s) for application of Users Pays charges to Shippers

Development and Implementation costs

Xoserve has provided a Rough Order of Magnitude (ROM) Analysis for the required UK Link (Gemini) changes based on the Business Rules within this proposal which estimates costs as:

- The development and implementation costs will be at least **£213k**, but probably not more than **£288k** per annum
- Ongoing Application Support costs will be at least **£6k**, but probably not more than **£22k** per annum

National Grid has previously stated that it believed the revenues and costs of this service could be included within Balancing Neutrality and invoiced to Users accordingly. However, after analysis and investigation by our legal department it has come to light that as the Development and Implementation costs associated with the Proposal are not Energy Balancing charges, enabling these User Pays costs to be recovered through the Energy Balancing Neutrality mechanism would require fundamental changes to the UNC and the Agency Charging Statement (ACS).

To reduce the legal complexity, National Grid is now proposing a pragmatic solution whereby the one-off and ongoing costs are recovered from Users via monthly User Pays charges as per the following;

Development and implementation costs will be recovered from Users over a 2 (two) year period. This cost will be divided into 24 (twenty-four) equal amounts with a User's individual proportion of this monthly 1/24 amount based on the Users proportion of the total system throughput for the month in which the invoice relates. For clarity these amounts will be invoiced monthly in arrears commencing the month after the implementation of this proposal and will cease after the 24th (twenty-fourth) invoice has been issued.

Ongoing costs will be recovered from Users over a 12 month period. The total Xoserve ongoing annual operating costs will be divided into a 12 equal amounts and each 1/12 amount will be invoiced on a monthly basis through User Pays charges. Costs will be apportioned to each Users based on their proportion of throughput for the month in which the invoice relates. For clarity these amounts will be invoiced monthly in arrears commencing the month after the implementation of this proposal. It is proposed that the ongoing costs for subsequent years of operating the Inter-Day Linepack Product will be recovered in line with this method.

Workgroup attendees were concerned that the collection of ongoing support costs appeared inappropriate and potentially created undue administrative complexity.

Inter-day Linepack Product Revenue

The revenues of the IDLP service are proposed to be apportioned to Users based on their proportion of throughput on each relevant day, with such credits being settled

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through the neutrality mechanism on a monthly basis

Based on conservative projections of the IDLP service take up, we estimate that in its initial year of implementation the service's revenues will be greater than the total estimated Development and Implementation costs. This estimate is based on National Grid releasing an average of 2 MCM each day, with predicted bid prices based on 2009/10 SAP to Day ahead SAP price spread.

It is expected that over a year revenues received by Users, through Balancing Neutrality, will be greater than the Xoserve ongoing annual operating costs.

d) Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve

It is proposed that the following charges will be included in the ACS:

The Agency Charging Statement

Exert of proposed Service Item 13

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1. Development and Implementation Cost

- **Description**
  i. Set up service;
  ii. The implementation of functionality to facilitate the Inter Day Linepack Product
- **Type**
  i. Code Service
- **Service recipient**
  i. Shippers under UNC
- **Service Detail**
  i. The development costs incurred as a result of the implementation of modification 0337. Cost recovery over a 24 month period
- **The charging basis is:**
  i. The total development costs divided into 24 monthly charge instalments. The monthly charge to each shipper will be based upon:
  ii. Each shipper's throughput value each month as a proportion of the each month's total throughput.
  iii. Charge will be invoiced 1 month in arrears.

2. Annual Ongoing Support Costs

- **Description**
  i. Annual Ongoing support service
- **Type**
  i. Code Service

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- **Service recipient**
  i. Shippers under UNC
- **Service Detail**
  i. The ongoing costs associated with the provision and maintenance of the Inter Day Linepack Product.
- **The Charging Basis**
  i. The charging basis is:
  ii. The total ongoing costs each year divided into 12 monthly instalments. The monthly charge to each shipper will be based upon:
  iii. Each shipper's throughput value each month as a proportion of the each month's total throughput.
  iv. Charges will be invoiced 1 month in arrears.

3 Extent to which implementation of the proposed modification would better facilitate the relevant objectives

National Grid considers that the intent of the Modification Proposal is to introduce a new service that seeks to achieve two principle objectives:

- Creates an arbitrage opportunity between prices on the gas day and the next day; and
- The introduction of an additional balancing tool for Users to manage their End of Day imbalance positions.
- Could reveal a proxy value of marginal changes in linepack through the price people are willing to bid for the service provided

Workgroup attendees also considered the modification meets National Grid's obligation to develop the associated service, and this was their intent in raising the modification.

Standard Special Condition A11.1 (a): ***the coordinated, efficient and economic operation of the pipe-line system to which this licence relates;***

Implementation would not be expected to better facilitate this relevant objective unless the SO could rely on the product to offset a short/long position.

Implementation of this modification would require the System Operator to undertake additional daily tasks in order to assess and announce the available volume. The cost of this activity is beyond the initial and ongoing cost of IS systems operations, which National Grid propose should be funded as a User Pays Service. The introduction of additional tasks and increased costs to operate the system would be expected to have a detrimental impact on the efficient and economic operation of the pipe-line system.

Allowing linepack to vary is one option open to the system operator when managing the system. This can be particularly valuable in response to unanticipated shocks to

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the system, especially when experienced late in the gas day when there is little opportunity for compensating actions to be taken by any party. Allowing Shippers to Park and/or Loan quantities of linepack could reduce the ability of the system operator to deal with unanticipated shocks, and hence implementation might be expected to have a detrimental impact on the efficient and economic operation of the pipe-line system.

Standard Special Condition A11.1 (b): ***so far as is consistent with sub-paragraph (a), the (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters;***

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (c): ***so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;***

The development of this service is in line with National Grid's C27 licence requirements. The implementation is dependent on the expected benefits to the industry; there are no direct benefits to National Grid of the implementation of this new service, and so, National Grid does not believe that the implementation of this modification better facilitates the SSCA11.1(c): Efficient discharge of the licensee's obligations.

Standard Special Condition A11.1 (d): ***so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers;***

The introduction of an additional balancing tool through which Users may manage their EoD balance position may better facilitate ***SSCA11.1(d): So far as is consistent with sub-paragraph (a) to (c) the securing of effective competition.*** The inclusion of an additional balancing tool should improve competition as it increases the possible ways a users is able to manage the provision of gas commercially. Dependent on the quantity and likelihood of its release this service could potentially lead to cost reductions for Shippers.

National Grid is mindful that in practise these improvements may be marginal and should be balanced against the uncertainties listed below;

- uncertainties relating to the quantity of product made available each day;
- uncertainties as to the time of release and the potential for zero release; and
- uncertainties with regard to the netting off process;

After implementation, as the service develops over time, these uncertainties will decrease, with the corresponding increase in the value of a more certain service.

Implementation would make an additional product available to Shippers such that they could choose to end a gas day out of balance. This would enable Shippers to

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make competitive choices between balancing options and, by choosing the most efficient option, costs across the industry would be expected to be reduced. Making additional tools available to the market and reducing costs would be expected to facilitate the securing of effective competition between Shippers.

National Grid NTS has emphasised that uncertainty means that the product will not always be available and that the quantities that can be released are likely to be greatest in the final, 23:00, release. Smaller Shippers, who do not have 24-hour operations, have suggested that this means they would not be in a position to use the product on the same basis as larger Shippers. The product could therefore be regarded as discriminating between Shippers. Undue discrimination would be a barrier to entry and be contrary to facilitating the development of effective competition between Shippers.

Shippers noted that the product had not been developed in response to industry demand, which would be expected if there was significant value for competition in the product.

Standard Special Condition A11.1 (e): ***so far as is consistent with sub-paragraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards (within the meaning of paragraph 4 of standard condition 32A (Security of Supply – Domestic Customers) of the standard conditions of Gas Suppliers' licences) are satisfied as respects the availability of gas to their domestic customers;***

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (f): ***so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code.***

Implementation would not be expected to better facilitate this relevant objective.

4 The implications of implementing the modification on security of supply, operation of the Total System and industry fragmentation

None identified.

5 The implications for Transporters and each Transporter of implementing the modification, including:

a) implications for operation of the System:

It is anticipated that the proposed changes will require National Grid NTS to appoint an Inter-Day Linepack Manager to operate and manage the Inter-day Linepack Bulletin Board. This implementation of this Proposal may also require the introduction new operational processes and procedures which support the registration

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of the trade nominations associated with accepted bids on the IDLP Bulletin Board.

b) development and capital cost and operating cost implications:

If implemented NGG estimates that the ongoing costs associated with the NGG operational support required for this Modification Proposal will be within the region of £126k a year. These costs are not included in the User Pays arrangements.

c) extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

Not applicable.

d) Analysis of the consequences (if any) this modification would have on price regulation:

No consequences have been identified.

6 The consequence of implementing the modification on the level of contractual risk of each Transporter under the Code as modified by the modification

No such consequence is anticipated.

7 The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users

UK Link System Impacts

In respect of the UK Link system changes required to support the implementation of this Proposal, and based on the business rules provided with this Proposal, Xoserve has provided a Rough Order of Magnitude (ROM) Analysis which estimates costs as:

- The development and implementation costs at least £213k, but probably not more than £288k per annum
- Ongoing Application Support will cost at least £6k, but probably not more than £22k per annum

8 The implications of implementing the modification for Users, including administrative and operational costs and level of contractual risk

Administrative and operational implications (including impact upon manual processes and procedures)

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No implications have been identified.

Development and capital cost and operating cost implications

No implications have been identified.

Consequence for the level of contractual risk of Users

No consequences have been identified.

9 The implications of implementing the modification for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party

No implications have been identified.

10 Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the modification

No consequences have been identified.

11 Analysis of any advantages or disadvantages of implementation of the modification

Advantages

Views welcomed

Disadvantages

Views welcomed

12 Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Workgroup Report)

No written representations have been received.

13 The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation

No such requirement has been identified.

14 The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

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No such requirement has been identified.

15 Programme for works required as a consequence of implementing the modification

No programme of works would be required as a consequence of implementing the modification.

16 Proposed implementation timetable (including timetable for any necessary information systems changes)

This modification could be implemented with immediate effect following direction from Ofgem.

17 Implications of implementing this modification upon existing Code Standards of Service

No implications of implementing this Modification Proposal upon existing Code Standards of Service have been identified.

18 Workgroup recommendation regarding implementation of this modification

This Workgroup Report is presented for the UNC Modification Panel's consideration. The Transmission Workgroup considers that the modification is sufficiently developed and should now proceed to the Consultation Phase. The Workgroup also recommends that the Panel requests the preparation of legal text for this modification. The Workgroup also recommended that the Panel should request a view from Ofgem on the appropriateness of the proposed recovery of User Pays costs from Shippers and Transporters